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Revision of UNDP financial regulations

Summary

In the present document, the Administrator submits his proposed revisions to the financial regulations so that they reflect changes resulting from: (a) Executive Board decisions, including the timing of the special UNDP funding meeting of the Executive Board, the treatment of support costs and the elimination of reimbursable target for resource assignment from the core (TRAC); (b) alignment with simplification and harmonization initiatives, involving the evolution in programming modalities; and (c) project management requirements of activities funded from Other Resources. Editorial changes are also recommended to improve clarity where necessary.

Elements of a decision

The Executive Board may wish to approve the proposed revised financial regulations contained herein.

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I. Introduction

1. This document sets out the rationale for and the process followed in revising the UNDP financial regulations, in addition to providing an overview of the proposed revisions.

2. The Administrator seeks the approval of the Executive Board for the proposed revised financial regulations. To this end, he has submitted all proposed revisions to the Advisory Committee on Administrative and Budgetary Questions (ACABQ) for its consideration and comments. The comments of the United Nations Office of Legal Affairs, which also reviewed the revised financial regulations, have been incorporated.

II. Purpose of and steps followed during comprehensive revision

3. The purpose of this comprehensive revision is to realign UNDP financial regulations with the organization's new operational processes, resulting from the implementation of United Nations Development Group simplification and harmonization initiatives. The aim of the revision is also to reflect other Executive Board decisions, which have impacted the financial regulations since the last comprehensive revision in 2000.

4. To address the requirements of the whole organization in this revision, extensive consultations have been conducted throughout UNDP, both at headquarters and in the country offices. UNDP has also sought to harmonize its proposed revisions with those of UNFPA, for which several consultations have been undertaken. Since the UNDP and UNFPA financial regulations are structured differently, and programming processes vary, differences still remain. Both organizations are committed, however, to addressing these in the long term.

III. Overview of proposed revisions

5. The revisions – substantive, terminological and editorial in nature – are presented as follows:

(a) Proposed substantive changes relate to:

1. Programming modalities,
2. Authority to commit resources against future receipt of contributions,
3. Separation of duties,
4. Previous Executive Board decisions;

(b) Proposed terminological changes; and

(c) Proposed editorial changes.

A. Proposed substantive changes

Programming modalities

6. In its resolution 56/201 of 21 December 2001, the General Assembly reiterated its request to the funds, programmes and specialized agencies of the United Nations system to simplify and harmonize their rules and procedures further, including procedures for the implementation of programmes and projects. In response to this request, the Executive Committee agencies of the United Nations Development Group (UNDG) have developed harmonized programming procedures/tools, including a refined United Nations Development Assistance Framework (UNDAF), the UNDAF results matrix, the country programme document, the country programme action plan (CPAP), and the annual work plan (AWP). These simplification and harmonization efforts have been positively received by both the Economic and Social Council and in joint meetings of the Executive Boards of UNDP/UNFPA, the United Nations Children's Fund (UNICEF) and the World Food Programme (WFP). The harmonized programming procedures are now being introduced in countries where United Nations organizations are starting new harmonized programme cycles. The CPAP was signed in five countries in 2004; and 18 countries will have their CPAP signed in 2005. Under harmonized programming procedures, the Executive Committee agencies will use the same instruments for implementation – the CPAP and AWP.

7. In countries where the CPAP and AWP are introduced, governments continue to have overall responsibility for the management of UNDP programme activities and achievement of results, through execution of the CPAP. Broad resource allocations, areas of intervention and management arrangements for UNDP programme activities are agreed between UNDP and governments in the CPAP, including the use of implementing partners. Implementing partners may include government entities, United Nations organizations, such as UNDP and the United Nations Office for Project Services (UNOPS) and non-governmental organizations. Following the conclusion of and within the framework established by the CPAP, specific UNDP programming activities carried out by implementing partners are reflected in AWPs, along with the corresponding allocation of resources. Under the harmonized procedures, therefore, UNDP programme activities continue to be nationally executed at the level of the CPAP while implementing partners carry out specific UNDP programme activities.

8. The harmonized approach to programming requires changes to the UNDP financial regulations in so much as execution – traditionally designed to cover overall management of specific programme activities or projects and effective use of resources – is now elevated to cover overall ownership and responsibility for UNDP programme activities at the country level. At the same time, national entities, United Nations organizations and other entities are now designated as implementing partner responsible for the effective management and delivery of outputs in connection with UNDP assistance in specific activities.

9. Since the introduction of the CPAP will be phased in over several years, and is not expected to be completed until 2008, UNDP has been advised by the United Nations Office for Legal Affairs that, in the interim, both the 'old' and 'new' regimes must be reflected in the revised financial regulations. In regulation 27.01, therefore, the organization has revised the definition of 'executing entity' and

introduced definitions of 'implementing entity' and 'implementing partner'. The definitions of 'execution' and 'implementation' have been revised in regulation 27.02, and various revisions to regulations 16 to 18 have been made to encompass the dual regimes.

Commitment of resources against future receipt of contributions

10. Regulation 5.07(b) requires that contributions to specific Other Resources activities must be paid in advance of the allocation made for the implementation of planned programme activities. The purpose of this regulation is to eliminate the risk that UNDP could suffer financial losses in the event of donor default in the payment of other resource contributions.

11. The nature of projects and programmes funded from Other Resources has become more complex, with activities that span several years and in some instances constitute significant amounts. At the same time, it has become the practice of many donors to require that their contributions to Other Resources activities be paid to UNDP in instalments rather than fully in advance. In such cases, UNDP is placed in the position of not being able to manage effectively projects that require contractual commitments that extend beyond the payment instalment periods. Moreover, from a cash management perspective, it is not unreasonable from a donor perspective that cash resources be made available only to cover the actual cash flow requirements of a project.

12. In consideration of the above, the Administrator suggests amending regulation 5.07(b) to allow for commitments to be made in advance of the receipt of contributions in certain instances. In new regulation 5.07(c), the Administrator proposes that decisions relating to the exceptional authority to enter into commitments against contributions to be paid in future instalments would be made in the context of a risk control framework. Such a framework, to be mandated through associated financial rules, will: (a) establish standards for the assessment of risk by identifying critical risk factors; (b) establish requirements for the mitigation of risk as a condition of approval; and (c) place limitations on the actual disbursement of cash prior to the receipt of contributions. Commitments would only be authorized against properly established and approved receivables and will be monitored and controlled via the Enterprise Resource Planning (Atlas) system, which will not accept commitments without approved receivables.

13. It is recognized that risk cannot be entirely eliminated. Any deficit that might result from the need to honour commitments made would be covered through: (a) appropriate pursuit of payment from the donor in connection with the legal terms of the officially signed agreement; (b) extrabudgetary resources as appropriate; (c) the provisions of regulation 5.08, which covers default of contributions to Other Resources, and (d) the Other Resources reserve as provided in regulation 25.06(b).

Separation of duties

14. An amendment is proposed to regulation 20.02 regarding the separation of duties among staff who may incur obligations, verify payments and disburse resources on behalf of UNDP. The amendment reflects the need to take into account

that in certain circumstances the Administrator may grant exceptions in the interest of the organization. Such exceptions might be necessary where staffing levels are not sufficient to provide for the full separation of duties that would normally prevail or in emergency situations.

Previous Executive Board decisions

15. The following revisions are being proposed to align the financial regulations with Executive Board decisions that have impacted the regulations since the last comprehensive revision in 2000.

Timing of special UNDP funding meeting

16. In addition to the annual pledging conference convened by the Secretary-General, a special UNDP funding meeting used to be convened annually in connection with the second regular session of the Executive Board previously held in April. Following Board decision 2000/10 to reduce the number of yearly sessions from four to three – thereby eliminating the April session – the funding meeting has since been held at the annual session in June. Consequently, regulation 6.05 is amended to reflect that the special UNDP funding meeting is now convened in the context of the annual session of the Executive Board.

Support costs

17. Prior to 2001, a percentage of UNDP Regular Resources was earmarked to cover administrative and operational costs incurred by executing entities in the execution/implementation of UNDP programme activities. Executive Board decision 98/19 regarding successor programming arrangements established that from 2001 the reimbursement of such costs should be negotiated with eligible United Nations organizations, and should no longer be a separate percentage earmarking. Administrative and operational services are thus considered to be direct costs of programmes and projects. The reference to support costs, therefore, has been removed from regulations 10.03, 11.01(f) and 26.05, whereas it is suggested that current regulations 18.06 and 18.07 be deleted. It is also proposed that the definition of support costs be removed from regulation 27.02.

Reimbursable TRAC

18. The Executive Board, in its decision 99/2, paragraph 9, endorsed the elimination of the system of reimbursable target for resource assignment from the core (TRAC) earmarking with effect from 2001. It is therefore suggested that regulation 12.04 regarding reimbursable TRAC be deleted.

B. Proposed terminology changes

19. The terminology of the financial regulations has been updated to reflect the new simplified and harmonized terminology for programme planning, developed in response to General Assembly resolution 56/201. In that connection, the term 'programme document' replaces the terms 'global cooperation framework', 'regional cooperation framework', and 'country cooperation framework'; the term 'results and resources framework' replaces the term 'resource mobilization table'. In addition, definitions of the terms 'implementing entity', 'implementing partner' and 'programme document' have been introduced.

20. In recognition of the wide use of electronic/digital communications, the terms 'written' or 'writing' have been defined to specify the acceptability and validity of documents in that form which can be authenticated as being produced by an authorized individual.

21. The definition of 'micro-capital grant' is being re-inserted, as it was inadvertently omitted in the last printing of Financial Regulations and Rules.

22. Finally, it is proposed that the definition of the term 'cost sharing' be amended to remove the words 'as a supplement to Regular Resources' since it is possible for cost sharing to be provided to specific programme activities that do not have a regular resource component. At the same time, the words 'in line with UNDP policies, aims and activities' are added to clarify that cost sharing contributions must be in accordance with those overall principles.

C. Proposed editorial changes

Applicability of financial regulations and rules

23. Current regulations 1.05(c) and 1.05(d) state that the UNDP financial regulations and rules are not applicable to UNFPA, and that the financial regulations are not applicable to UNOPS. In order to define applicability by inclusion rather than exclusion, it is suggested in revised regulation 1.05 that the references to UNFPA and UNOPS are removed.

Income derived from the provision of management and support services

24. As stated in current regulation 9.03, income derived from the provision of management and other support services is to be considered as income to UNDP. Since such income in UNDP is classified as Other Resources income, it is suggested that the regulation be amended to make this distinction explicit.

Programme activities: resource assignment

25. It is suggested that regulation 12.01(b), which states that programme documents (cooperation frameworks) may be established at the country, regional or global level, be deleted since it is adequately covered under regulation 12.01(a).

Duration and timing of the country programming period

26. Current regulation 12.02(b) lays out the timing and duration of the country programming period. It is suggested that, as in UNFPA, this information be included in the new UNDP Programming Guide only and removed from the financial regulations.

Support services

27. It is proposed that the introductory text of regulation 15.01 be modified to indicate clearly that the regulation addresses *to whom* UNDP provides support services rather than the *type* of support services provided.

Authority to close bank accounts

28. The Administrator is responsible and accountable for the effective and efficient management of cash resources in UNDP custody, as per current regulation 25.01. Cash management is defined to include all actions necessary for receipt, deposit, advance, investment and disbursement of cash, including the designation of banks and opening of bank accounts. In revised regulation 25.01, it is proposed that this definition be expanded to include the closing of bank accounts in order to clarify the Administrator's authority in this area.

Authority to designate staff that may receive and/or disburse moneys

29. Because the authority of the Administrator to designate staff that may receive and/or disburse moneys is adequately covered under regulation 25.01, it is suggested that regulation 25.02 is deleted.

IV. Implementation of the revised financial regulations

30. Should the Executive Board wish to approve the revised financial regulations, the Administrator will subsequently issue proposed revised financial rules in accordance with regulation 2.02.

31. Prescriptive content and other learning instruments would thereafter be developed to ensure the new financial regulations and rules are understood and effectively implemented.

Annex. Revised UNDP financial regulations

Chapter A: Applicability

Article 1: Applicability

Regulation 1.03:
These Regulations shall become effective on 1 ~~April 2000~~ **March 2005**.

Regulation 1.05:
(a) Unless otherwise specified in (b) below, the UNDP Financial Regulations and Rules shall apply to all resources administered by the United Nations Capital Development Fund, by the United Nations Revolving Fund for Natural Resources Exploration, by the United Nations Fund for Science and Technology for Development, by the United Nations Development Fund for Women and by the United Nations Volunteers programme.

(b) Additions or amendments to the UNDP Financial Regulations and Rules, which shall be applicable to the United Nations Capital Development Fund and to the United Nations Revolving Fund for Natural Resources Exploration and which are necessary in order to take account of the special requirements of their operations, are contained in the relevant annex to the UNDP Financial Regulations and Rules;

~~(c) The UNDP Financial Regulations and Rules are not applicable to the United Nations Population Fund, which operates under its own Financial Regulations and Rules as approved by the Executive Board.~~

~~(d) The UNDP Financial Regulations are not applicable to the United Nations Office for Project Services, which operates under its own Financial Regulations, which are annexed to the UNDP Regulations and Rules.~~

Chapter C: Resources

Article 5: General framework

Regulation 5.07:
Contributions to ~~o~~Other ~~r~~Resources shall be subject to the following conditions:

(a) Contributions shall be paid pursuant to an agreement made between the contributor and the Administrator;

(b) Contributions shall be paid in advance of the allocation made for the implementation of planned UNDP programme activities, **except as provided under the terms of Regulation 5.07(c);**

(c) **Notwithstanding the provision of Regulation 5.07(b), allocations may be made on the basis of receivable co-financing contributions, in accordance with risk guidelines established by the Administrator.**

(d) ~~(c)~~ Additional costs incurred by UNDP in administering the contribution shall be fully covered from the contribution.

Regulation 5.08:
In cases of default by a contributor of payment of part or all of a contribution to UNDP ~~o~~Other ~~r~~Resources, or in the case of unforeseen contingencies, the resources available for UNDP programme activities at the country level or at the respective regional level shall be charged with those costs which would otherwise have been financed from the contribution to ~~o~~Other ~~r~~Resources.

Article 6: Voluntary contributions to Regular Resources

Regulation 6.03:
Voluntary contributions and other contributions to ~~r~~Regular ~~r~~Resources shall be made without limitation as to use ~~by a specific executing entity, in a specific programme country or region, or for specific UNDP programme activities~~. No contributing Government shall receive special treatment with respect to its voluntary contribution, nor shall negotiation take place for the use of currencies contributed to UNDP between contributing Governments and programme countries.

Regulation 6.05:
Without prejudice to the annual pledging conference convened by the Secretary-General, a special UNDP funding meeting will be convened on an annual basis within the context of the ~~second regular~~ **annual** session of the UNDP/UNFPA Executive Board, at which voluntary contributions to UNDP ~~r~~Regular ~~r~~Resources will be formally announced. This funding meeting will be the time when all member States would:

(a) Announce their voluntary contributions to UNDP as follows: a firm funding commitment for the current year; for those in a position to do so, a firm contribution or indication of the contribution for the following year; and a firm or tentative contribution for the third year;

(b) Announce payment schedules for the current year, taking into account that early payments are encouraged;

(c) Review the past payments of contributions to UNDP ~~r~~Regular ~~r~~Resources and government contributions to local office costs made in the previous calendar year as well as the timing of the payments.

Article 9: Other contributions and income

Regulation 9.03:
At the request of programme countries, UNDP may provide management and other support services associated with the financing of activities by Governments, or intergovernmental or governmental organizations. Such management and other support services shall be consistent with the policies, aims and activities of UNDP. The income derived from the provision of such management and other support services shall be considered as **Other Resources** income to UNDP.

Regulation 9.04:
All income to UNDP shall be classified as miscellaneous income, except:

(a) The income from the contributions specified in ~~this c~~Chapter **C (Resources)**;

(b) Direct refunds of expenditures in respect of programme activities during the approved duration of a programme activity, i.e., before the final allocation for UNDP assistance to a programme activity is made;

(c) Direct refund of expenditures in respect of the biennial support budget during the current biennium;

(d) Advances or deposits to funds;

(e) Revenue derived from the staff assessment plan

Chapter D: Resource planning and financial authorization

Article 10: General framework

Regulation 10.02:

(a) UNDP shall have an integrated financial framework for the planning and management of ~~r~~Regular ~~r~~Resources that shall cover a fixed multi-year period;

(b) This fixed multi-year financial framework period shall consist of four consecutive calendar years known as the "financial framework period";

(c) Within this financial framework period, and at least two years prior to the beginning of a new such framework, the Administrator shall submit to the Executive Board for its approval a distribution of UNDP ~~r~~Regular ~~r~~Resources in percentage shares among specific categories as defined in Regulation 11.01.

Regulation 10.03:

Subject only to the maintenance on a continuous basis of the reserves set forth under Article 25 and for working capital, and after provision has been made for the biennial support budget, all resources of UNDP shall be available to the maximum extent possible for programme activities~~, including reimbursement of related support costs~~.

Regulation 10.04:

Financial authorizations against UNDP ~~r~~Regular ~~r~~Resources shall be issued on a partially funded basis.

Article 11: Programme activities: distribution of resources

Regulation 11.01:

Regular ~~r~~Resources available for UNDP programme activities are distributed by the Executive Board in the following main categories:

(a) Programme activities at the country level, including targets for resource assignment from the core~~, i.e., regular resources~~ (hereinafter referred to as TRAC) ~~1 and 2, and TRAC 3 resources for countries in special development situations~~;

(b) Programme activities at the regional level;

(c) Programme activities at the global level;

(d) Evaluation;

(e) Technical cooperation between developing countries activities;

~~(f) Support costs;~~

(f) ~~(g) Support to the Resident Coordinator~~ UN Resident Coordinator system;

(g) ~~(h)~~Other categories as may be established by the Executive Board.

Article 12: Programme activities: resource assignment

Regulation 12.01:

(a) Within the ~~r~~**R**egular ~~r~~Resources distributed to programme countries and to regiona! and global programme activities, and taking into account anticipated ~~o~~Other ~~r~~Resources, the Administrator shall submit, on the basis of principles laid down by the Executive Board, ~~cooperation frameworks~~ **programme documents** for approval by the Executive Board;

~~(b) Such cooperation frameworks may be established at the country, regional, or global level, as appropriate;~~

(c) ~~Cooperation frameworks~~ **Programme documents** shall each contain a ~~resource mobilization table~~ **results and resources framework** outlining the level of funding targeted from both ~~r~~Regular and ~~o~~Other ~~r~~Resources for the entire planning period **for each outcome** covered by the ~~cooperation framework~~ **programme document**.

Regulation 12.02:

~~(a)~~ The approval of a ~~cooperation framework~~ **programme document** by the Executive Board forms the basis for subsequent allocation of UNDP resources towards the achievement of the development ~~objectives~~ **results** specified in the ~~framework~~ **programme document**.

~~(b) Cooperation frameworks shall normally cover a planning period of three to five consecutive calendar years, taking into account national planning horizons and harmonized planning horizons of the United Nations system.~~

~~**Regulation 12.04:**~~

~~Whenever the Executive Board has approved UNDP programme activities on a reimbursable basis, the requesting programme country Government shall reimburse the cost of such UNDP programme activities to UNDP in accordance with an agreement for this purpose concluded between UNDP and the programme country Government concerned.~~

Regulation 12.05~~4~~:

The Administrator may expend annually up to one tenth of 1 per cent of the resources available for the regional and global ~~cooperation frameworks~~ **programme documents** for preparation and review of such ~~cooperation frameworks~~ **programmes** without further recourse to Governments or to the Executive Board.

Article 14: Biennial support budget: appropriations

Regulation 14.04:

Transfers between the appropriation lines for the biennium may be made by the Administrator, subject to such limits as the Executive Board may specifically decide~~,~~ with the prior concurrence of the Advisory Committee.

Article 15: Support services

Regulation 15.01:

The Administrator is authorized to provide a range of support services consistent with the policies, aims and activities of UNDP, to the following ~~These services may include~~:

(a) ~~Support to a~~**A**ctivities financed by organizations within the United Nations system;

(b) ~~Support services to n~~**N**ational execution and execution by other entities, and to the implementation of UNDP programme activities, within the parameters established by the Executive Board.

Regulation 15.03:
The Administrator is authorized to make adequate arrangements with the programme country Government, executing entity or, **under the harmonized operational modalities established in response to General Assembly resolution 56/201, implementing partner,** ~~or organization of the United Nations system~~ for reimbursement of costs incurred by UNDP for support services **it provides.** ~~to national execution and/or to the implementation of UNDP programme activities~~.

Chapter E: Utilization of resources by executing entities **and implementing partners**

Article 16: General framework

Regulation 16.03:
UNDP programme activities shall be subject to the following arrangements:

(a) Agreements shall be entered into between UNDP and individual programme country Governments, specifying the general terms and conditions which are to govern UNDP programme activities in their respective countries and territories;

(b) Arrangements for the establishment and financing of UNDP programme activities shall be subject to the agreement between the programme country or countries and UNDP, in the form of project documents ~~or programme support document~~;

Regulation 16.04:
The Administrator shall ensure that, except for organizations of the United Nations system, executing entities **or, under the harmonized operational modalities, implementing partners,** shall require auditors to follow the audit principles and procedures prescribed for the United Nations in respect of resources obtained from or through UNDP and shall ensure that each UNDP programme activity is audited at least once in its lifetime, or as otherwise required pursuant to the relevant agreements governing such programme activity.

Regulation 16.05:
(a) The administration by executing entities **or, under the harmonized operational modalities, implementing partners,** of resources obtained from or through UNDP shall be carried out under their respective financial regulations, rules, practices and procedures only to the extent that they do not contravene the principles of the Financial Regulations and Rules of UNDP.

(b) Where the financial governance of an executing entity **or, under the harmonized operational modalities, implementing partner,** does not provide the required guidance to ensure best value for money, fairness, integrity, transparency, and effective international competition, that of UNDP shall apply.

Regulation 16.06:
The Administrator shall establish, from time to time, in consultation with the Board of Auditors, criteria determining which UNDP programme activities **carried out by an executing entity, or under the harmonized operational modalities, implementing partner,** ~~executed by entities other than organizations from the United Nations system~~ are to be audited biennially. Such criteria shall be made available to the Board of Auditors.

Article 17: Designation, selection and termination of the executing entity **and implementing partner**

Regulation 17.01:

(a) In consultation with and with the agreement of the programme country Government, the Administrator shall select a single executing entity **or, under the harmonized operational modalities, implementing partner,** among the designated entities for each specific UNDP programme activity. With the agreement of the programme country Government and UNDP, **the such** selected executing entity **or implementing partner,** may associate one or more other entities with it in **carrying out ~~the implementation of~~** UNDP programme activities.

(b) The selection of an executing entity **or, under the harmonized operational modalities, implementing partner,** shall be conditional upon the existence of a signed agreement or other arrangement between UNDP and the entity **or partner** concerned, specifying the terms and conditions which are to govern the UNDP programme activities for which that entity **or partner** has been selected.

(c) The Administrator may delegate authority, as appropriate, for the selection of executing entities **or, under the harmonized operational modalities, implementing partners,** and the oversight of their performance.

Regulation 17.02:

For UNDP programme activities not carried out under the harmonized operational modalities established in response to General Assembly resolution 56/201:

a) National execution shall be the norm for UNDP programme activities, taking into account the capacities of programme countries and the nature of UNDP programme activities.

b) Where national execution is found not to be appropriate, consideration in the selection of an executing entity shall be given to organizations of the United Nations system, and the United Nations Office for Project Services, **or UNDP itself**.

c) The Administrator may select UNDP as executing entity only when it can be demonstrated that such a step is essential to safeguard the full responsibility and accountability of the Administrator for the effective delivery of UNDP programme activities.

d) **Subject to conditions established by the UNDP Executive Board in its decision 94/28, ~~T~~**the Administrator may, subject to the agreement of the requesting Government or Governments, contract for the services of other agencies, private firms or individual experts in the execution of projects and assign projects to a governmental, intergovernmental, or organization not part of the United Nations system.

Regulation 17.03:

~~Where national execution is found not to be appropriate, consideration in the selection of an executing entity shall be given to organizations of the United Nations system, and the United Nations Office for Project Services.~~

For UNDP programme activities carried out under the harmonized operational modalities established in response to General Assembly resolution 56/201:

a) Programme country Governments shall normally serve as executing entity over UNDP programme activities, except where UNDP fulfils such a role in accordance with Regulation 17.02(c).

b) Subject to conditions established by the UNDP Executive Board, consideration shall be given to the selection of organizations of the United Nations system, and the United Nations Office for Project Services, as well as inter-governmental and non-governmental organizations and UNDP itself, as implementing partners for specific programme activities.

~~**Regulation 17.04:**~~
~~The Administrator may, subject to the agreement of the requesting Government or Governments, contract for the services of other agencies, private firms or individual experts in the execution of projects and assign projects to a governmental, intergovernmental, or organization not part of the United Nations system, or to UNDP itself, if the entity meets the following conditions:~~

~~(a) it has the ability to: reach and mobilize local associations and groups at the local level; interpret and communicate national policy, goals and strategies at the local level; and ensure project sustainability beyond the funding period;~~

~~(b) it has technical and/or scientific capacities not available in the United Nations system;~~

~~(c) it has special qualifications for building collective decision-making systems which are respectful of local customs and traditions;~~

~~(d) it has the capacity to strengthen the capacities of local organizations in areas essential to the promotion of sustainable human development;~~

~~(e) it has special qualifications for bringing about dialogue and partnership arrangements between the government and the local community; and~~

~~(f) it has proven operational and managerial capacity and the ability to provide the needed services in a cost-effective manner and ensure its accountability to the Administrator~~.

~~**Regulation 17.05:**~~
~~The Administrator may select UNDP as executing entity only when it can be demonstrated that such a step is essential to safeguard the full responsibility and accountability of the Administrator for the effective delivery of UNDP programme activities.~~

Regulation 17.06:
(a) The Administrator may, by written notice to the Government and the executing entity **or, under the harmonized operational modalities, implementing partner,** under the terms and conditions of the UNDP agreement with such party, suspend UNDP programme activities if any circumstance arises which in his/her opinion interferes or is likely to interfere with their successful completion or the accomplishment of their purposes and results.

(b) If such circumstance continues for a period of 14 days after written notice of such suspension to the programme country and the executing entity **or, under the harmonized operational modalities, implementing partner,** the Administrator may, by written notice to the same parties: (i) terminate UNDP programme activities or (ii) terminate the execution by the executing entity **or, under the harmonized operational modalities, implementation by the implementing partner,** of UNDP activities in the country and, with the consent of the Government, take over such execution **or implementation,** or entrust it to another executing entity **or, under the harmonized operational modalities, implementing partner**.

Article 18: Financial oversight of the executing entity **and implementing partner** functions

Regulation 18.01:
The budget covering UNDP programme activities, as contained in an approved document, shall constitute the allocation of resources by the Administrator to the executing entity **or, under the harmonized operational modalities, implementing partner,** and the authorization to incur expenditures and enter into commitments.

Regulation 18.04:

To ensure the effective management of resources allocated to executing entities **or, under the harmonized operational modalities, implementing partners,** the Administrator is authorized to specify in the relevant agreements with such entities **or partners**, the basis, content and periodicity of reports on funds obtained from or through UNDP which are to be submitted by executing entities **or, under the harmonized operational modalities, implementing partners**.

Regulation 18.05:
Each executing entity **or, under the harmonized operational modalities, implementing partner,** shall maintain such accounts and records as are necessary to enable it to report on the financial status of funds obtained from or through UNDP, including in particular the balance of recorded allocations, expenditures and commitments.

~~**Regulation 18.06:**~~
~~Organizations of the United Nations system participating in the support cost arrangements may be reimbursed for their support costs associated with the implementation of UNDP programme activities up to levels determined by the Executive Board.~~

~~**Regulation 18.07:**~~
~~Entities other than organizations of the United Nations system participating in the support cost arrangements may be authorized by the Administrator to be eligible for reimbursement of the costs they have incurred in implementing UNDP programme activities, based on estimates of actual costs.~~

Chapter F: Utilization of resources by UNDP

Article 20: General framework

Regulation 20.02:
Unless otherwise expressly authorized by the Administrator, t~~T~~here shall be a separation of duties:

(a) Between the staff who may incur obligations or commitments on behalf of UNDP and the staff who may verify that payments may be made on behalf of UNDP; and

(b) Between the staff who may verify that payments may be made on behalf of UNDP and the staff who may disburse resources on behalf of UNDP.

Chapter G: Administration of resources

Article 25: Cash management

Regulation 25.01:
The Administrator, under the authority delegated by the Secretary-General as custodian of all funds, is responsible and accountable for the effective and efficient management of cash resources in UNDP custody.

(a) Cash management includes all actions necessary for receipt, deposit, advance, investment and disbursement of cash, including the designation of banks and opening **and closing** of bank accounts.

(b) The Administrator may delegate authority, as appropriate, to staff for such cash management.

Regulation 25.02:
~~The Administrator shall designate the staff who may receive and/or disburse moneys.~~

Regulation 25.06:
Within the UNDP Accounts, the following reserves shall be established at levels set by the Executive Board:

(a) An Operational Reserve, the purpose of which is to guarantee the financial viability and integrity of UNDP. The Reserve shall be fully funded and held in irrevocable and promptly available liquid assets. The elements to be compensated for and covered by it shall be limited to:

i. Downward fluctuations or shortfalls in resources;
ii. Uneven cash flows;
iii. Increases in actual costs as compared to planning estimates or fluctuations in delivery; and
iv. Other contingencies which result in a loss of resources for which UNDP has made commitments for programming;

The decision to make a drawdown from the Operational Reserve shall rest solely with the Administrator, who will report all drawdowns to the Executive Board at its next regular session, and between sessions, to the members of the Executive Board as may be prescribed by the Board or whenever, in the opinion of the Administrator, the situation so merits;

...

(b) An Other Resources Reserve, the purpose of which is to ensure that financial risks associated with ~~o~~Other ~~r~~Resources activities are prudently managed. The decision to make a drawdown from the Other Resources Reserve shall rest solely with the Administrator, who will report all drawdowns to the Executive Board at its next regular session and between sessions, to the members of the Executive Board as may be prescribed by the Board or whenever, in the opinion of the Administrator, the situation so merits.

(c) A fully funded Reserve for Field Accommodation, for housing for internationally recruited, UNDP-financed field personnel and, exceptionally, for office accommodation. The terms and conditions under which the Administrator may agree to such loans shall be established by the Executive Board. The Administrator shall report annually to the Executive Board on the status of such loans;

(d) Such other reserves as may be approved by the Board.

Article 26: Accounting

Regulation 26.05:
The financial period for the purpose of incurring and accounting for expenditures in respect of UNDP programme activities, ~~including reimbursement of related agency support costs,~~ shall consist of a single calendar year.

Chapter H: Definitions

Article 27: Definitions

Regulation 27.01:
For the purpose of the Financial Regulations of UNDP, the following definitions of the main entities involved in the activities of UNDP shall apply:

[...]

(h) "executing entity" shall mean:

(i) **For UNDP programme activities not carried out under the harmonized operational modalities established in response to General Assembly resolution 56/201,** the entity responsible for the overall management of a specific UNDP programme activity, including accountability for the production of outputs, achievement of objectives and for the **effective** use of UNDP resources.

(ii) For UNDP programme activities carried out under the harmonized operational modalities established in response to General Assembly resolution 56/201, the entity that assumes the overall ownership over and responsibility for UNDP programme activities and the acceptance of accountability for results, and shall normally be the programme country Government.

(i) "implementing entity" shall mean, for UNDP programme activities not carried out under the harmonized operational modalities established in response to General Assembly resolution 56/201,the entity responsible for the procurement and delivery of UNDP programme activity inputs and their use in producing outputs.

(j) "implementing partner" shall mean, for UNDP programme activities carried out under the harmonized operational modalities established in response to General Assembly resolution 56/201, the entity to which the Administrator has entrusted the implementation of UNDP assistance specified in a signed document along with the assumption of full responsibility and accountability for the effective use of UNDP resources and the delivery of outputs, as set forth in such document.

Regulation 27.02:
For the purposes of the Financial Regulations of UNDP, the following definitions of specific terms used shall apply. These terms are listed in alphabetical order.

[...]

biennial support budget - the budget covering **a period of two calendar years to cover** the costs of UNDP relating to programme support, management and administration, and support to operational activities of the United Nations;

cost-sharing - a co-financing modality under which contributions ~~from Other resources~~ can be received ~~as a supplement to Regular rResources~~ for specific UNDP programme activities, **in line with UNDP policies, aims and activities. Such contributions shall be recorded as Other Resources** ~~under the relevant cooperation framework~~;

~~country cooperation framework - the framework for UNDP programme activities in a particular country, prepared by the Government of that country, indicating the proposed use of UNDP resources towards the achievement of selected national development objectives during a specific period;~~

execution – **shall mean:**

a) For UNDP programme activities not carried out under the harmonized operational modalities established in response to General Assembly resolution 56/201, assuming the overall management of specific UNDP programme activities and the acceptance of accountability to the Administrator for the effective use of UNDP resources;

b) For UNDP programme activities carried out under the harmonized operational modalities established in response to General Assembly resolution 56/201, assuming the overall ~~management of~~ **ownership over and responsibility for** specific UNDP programme activities and the acceptance of accountability ~~to the Administrator for the effective use of UNDP resources~~ **for results**;

~~global cooperation framework - the framework for UNDP programme activities of worldwide significance; indicates the proposed use of UNDP resources towards the achievement of the global development objectives concerned;~~

implementation – **shall mean:**

(a) For UNDP programme activities not carried out under the harmonized operational modalities established in response to General Assembly resolution 56/201, the procurement and delivery of UNDP programme activity inputs and their use in producing outputs.

(b) For UNDP programme activities carried out under the harmonized operational modalities established in response to General Assembly resolution 56/201, the management and delivery of programme activities to

achieve specified results including the procurement and delivery of UNDP programme activity inputs and their use in producing outputs, **as set forth in a signed document between UNDP and the implementing partner**;

micro-capital grant – the financial assistance provided to an intermediary which includes non-governmental or grass roots organizations in an amount not exceeding $150,000 for each individual grant;

obligation - an **encumbrance or** engagement involving a liability against the resources of the current year in respect of UNDP programme activities and the current biennium in respect of the biennial support budget;

~~o~~Other ~~r~~Resources - the resources of UNDP, other than Regular ~~r~~Resources, which are received for a specific programme purpose, consistent with the policies, aims and activities of UNDP and for the provision of management and other support services to third parties;

programme document – the document approved by the Executive Board that describes the framework for UNDP programme activities, and indicates the proposed UNDP resources to achieve results during a specified period. Programme documents are prepared at the country level in cooperation with the Government of that country, as well as at regional and global levels.

~~regional cooperation framework – programme activities of a regional significance. A regional cooperation framework shall include the budget of resources to be used towards the achievement of the regional development objectives concerned;~~

~~r~~Regular ~~r~~Resources - the resources of UNDP that are co-mingled and untied. These will include voluntary contributions, contributions from other governmental, intergovernmental or non-governmental sources and related interest earnings and miscellaneous income;

~~support costs – the reimbursable expenses incurred by an entity as a result of its implementation of UNDP programme activities;~~

target for resources assignment from the core, ~~i.e., regular resources~~ (TRAC) - the order of magnitude of the ~~r~~Regular ~~r~~Resources expected to be available from UNDP during a specified period for the financing of UNDP programme activities at the country level;

trust fund – **a co-financing modality established as** a separate accounting entity under which UNDP receives contributions to finance UNDP programme activities specified by the contributor;

UNDP Accounts - the Accounts established for the purposes of accounting for the receipt and use of all resources entrusted to the Administrator and activities thereby financed, and shall include:

(a) The Regular Resources Account, which shall include all Regular ~~r~~Resources of UNDP, activities thereby financed, and related income; and
(b) The Other Resources Account, which shall include all ~~o~~Other ~~r~~Resources of UNDP, activities thereby financed, and related income; and
(c) The UNDP Funds Account, which shall include all resources received by Funds and Programmes entrusted to the Administrator, activities thereby financed, and related income;

UNDP programme activity or activities - activities funded from UNDP resources ~~and directly associated with the accomplishment of the UNDP mandate,~~ through projects. ~~or supports to national programme frameworks (or coherent sets of interrelated policies, strategies, activities and investments designed to achieve a specific time-bound national development objective or set of objectives).~~ UNDP programme activities are planned and carried out through the means of ~~a signed~~ project documents ~~or programme support document and its revisions, covering the agreed arrangements for the implementation of UNDP programme activities~~;

voluntary contributions - contributions to UNDP Regular ~~r~~Resources from Governments of States Members of the United Nations, of the specialized agencies or of the International Atomic Energy Agency;

working capital - the residual of cash flows into and out of UNDP used to provide advances to executing entities **or, under the harmonized operational modalities, implementing partners,** fund unliquidated obligations and pay ongoing administrative expenses;

"written" or "writing" - a duly signed paper document or a document in electronic/digital form that that can be authenticated as being produced by an authorized individual.

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Financial, budgetary and administrative matters

Revision of UNDP financial regulations*

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Administrator of the United Nations Development Programme (UNDP) on the proposed revisions to the financial regulations (DP/2005/3). During its consideration of the matter, the Committee met with representatives of the Administrator.

2. As indicated in paragraph 3 of document DP/2005/3, the purpose of this comprehensive revision of the UNDP financial regulations is to realign them with the new operational processes resulting from the implementation of United Nations Development Group simplification and harmonization initiatives. The revision of the regulations also reflects Executive Board decisions that have affected them since the last comprehensive revision in 2000.

3. The Advisory Committee notes that extensive consultations were conducted throughout UNDP, both at headquarters and in the country offices, as well as with UNFPA, with the purpose of harmonizing its proposed revisions with those proposed by UNFPA (see DP/FPA/2005/3). The report of the Committee on the proposed revisions to the UNFPA financial regulation is contained in document DP/FPA/2005/4.

4. The Committee further notes that, as in the case of UNFPA, the United Nations Office of Legal Affairs (UNOLA) reviewed and commented on the proposed revisions of the financial regulations and its comments have been

*The collection of data required to provide the Executive Board with the most current information has delayed submission of the present document.

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incorporated in the proposed text. The Committee welcomes the presentation of the report of the Administrator. Proposed revisions are clearly identified and explained.

5. Paragraph 5 of document DP/2005/3 indicates that the proposed revisions to the UNDP financial regulations include both substantive and editorial changes, as well as certain changes in terminology. Proposed substantive changes are grouped into four categories, as follows:

(a) Programming modalities;
(b) Authority to commit resources against future receipts of contributions;
(c) Separation of duties; and
(d) Previous decisions of the Executive Board.

6. Changes under programming modalities are discussed in paragraphs 6 to 9 of the report of the Administrator. The Committee notes that harmonized programming procedures are now being introduced in countries where United Nations organizations are starting new harmonized programme cycles. The introduction of the country programme action plan will be phased in over several years and is expected to be completed by 2008.

7. In the interim, UNDP proposes to reflect in the revised financial regulation both the 'old' and the 'new' regime, as advised by UNOLA. Consequently, proposed changes in the revised regulation 27.01 include a new definition for the term "executing agency" and new definitions for the terms "implementing entity" and "implementing partner." Similarly, the definitions of "execution" and "implementation" would be changed in the proposed revised regulation 27.02. Other pertinent changes are proposed to regulations 16 to 18 to take into account both regimes.

8. Commitment of resources against future receipt of contributions is addressed in paragraphs 10 to 13 of document DP/2005/3. The Advisory Committee notes from paragraph 11 of the report that the nature of projects and programmes funded from 'other resources' has become more complex. It has become the practice of many donors to pay contributions to 'other resources' in instalments rather than fully in advance when project and programme activities span several years.

9. In this connection, the Committee was informed that some donors, notably the European Union, have instituted a withholding of final payments until satisfactory completion of the project. The Committee understands that this procedure was accepted by the United Nations Secretariat on behalf of the United Nations system in the framework agreement signed with the European Union in 2003.

10. The Committee was further informed that, in the cases mentioned above, UNDP is placed in the position where it cannot effectively manage projects that require contractual commitments extending beyond the payment instalment periods, without contravening the current financial regulation 5.07. This regulation requires that before UNDP allocates funds for the implementation of a programme activity funded from 'other resources', it should have received 100 per cent of the pledged contribution for the activity.

11. Under the circumstances, the Administrator proposes amending regulation 5.07 (b) to allow in certain instances for commitments to be made against contributions to be paid in future instalments. The Committee was informed that internal guidelines are being prepared to minimize UNDP's risk in this area. To mitigate risk further, commitments would only be authorized against established and approved receivables and would be monitored and controlled using the Atlas system.

12. Current financial regulation 20.02 requires full separation of duties among UNDP staff authorized to incur obligations, verify payments and disburse resources on behalf of UNDP. The Advisory Committee was informed that in a limited number of cases, because of emergency situations or due to temporarily insufficient staffing levels, full separation of duties was not always possible. An amendment is therefore proposed to regulation 20.02 that would allow the Administrator to grant exceptions to this regulation in the interests of UNDP.

13. Paragraphs 15 to 17 of the report of the Administrator discuss the proposed revisions to the financial regulations required to align them with previous Executive Board decisions that have affected them since their last comprehensive revision in 2000. The Advisory Committee notes that the revisions in this category include, notably, those related to current regulations on support costs and reimbursable 'target for resource assignment from the core' (TRAC), reflecting past decisions of the Executive Board (98/19 and 99/2, respectively).

14. Proposed terminology and editorial changes are explained in paragraphs 19 to 29 of the report of the Administrator.

15. The Advisory Committee emphasizes the need for UNDP financial regulations to promote transparency and accountability. The Committee has been assured that the proposed changes to the regulations would improve clarity, and, where necessary, reflect simplified and harmonized terminology for programme planning, in response to General Assembly resolution 56/201.

16. Accordingly, the Advisory Committee recommends that the Executive Board approve the revisions to the existing regulations, as contained in the report of the Administrator (DP/2005/3).